

*South Kalamazoo County Fire Authority*  
*Kalamazoo County, Michigan*  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2008*

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## INDEPENDENT AUDITORS' REPORT

### Members of the Board South Kalamazoo County Fire Authority

We have audited the accompanying financial statements of the governmental activities and the major fund of the South Kalamazoo County Fire Authority as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of South Kalamazoo County Fire Authority as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, on page 9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The South Kalamazoo County Fire Authority, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

*Siegfried Crandall P.C.*

July 8, 2008



1958-2008

## **BASIC FINANCIAL STATEMENTS**

**South Kalamazoo County Fire Authority**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**

March 31, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
<b>ASSETS</b>			
Cash	\$ 150,072	\$ -	\$ 150,072
Accounts receivable	42,182	-	42,182
Capital assets not being depreciated - land	-	5,000	5,000
Capital assets being depreciated, net	-	383,128	383,128
Total assets	<u>\$ 192,254</u>	<u>\$ 388,128</u>	<u>580,382</u>
<b>LIABILITIES</b>			
Payables	\$ 27,399	\$ -	27,399
Deferred revenue	4,074	-	4,074
Total liabilities	31,473	-	<u>31,473</u>
<b>FUND BALANCE</b>			
Unreserved, undesignated	<u>160,781</u>	<u>(160,781)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 192,254</u>		
<b>NET ASSETS</b>			
Investment in capital assets		388,128	388,128
Unrestricted		<u>160,781</u>	<u>160,781</u>
Total net assets		<u>\$ 548,909</u>	<u>\$ 548,909</u>

**Total fund balance** \$ 160,781

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

**Total net assets** \$ 548,909

See notes to financial statements

**South Kalamazoo County Fire Authority****STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES**

Year ended March 31, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Public safety	\$ 290,279	\$ 55,541	\$ 345,820
Capital outlay	<u>37,410</u>	<u>(37,410)</u>	<u>-</u>
Total expenditures/expenses	<u>327,689</u>	<u>18,131</u>	<u>345,820</u>
<b>PROGRAM REVENUES</b>			
Intergovernmental	353,082	-	353,082
Other	<u>5,290</u>	<u>-</u>	<u>5,290</u>
Total program revenues	<u>358,372</u>	<u>-</u>	<u>358,372</u>
<b>NET PROGRAM REVENUES</b>	<u>30,683</u>	<u>(18,131)</u>	<u>12,552</u>
<b>GENERAL REVENUES</b>			
Interest	1,265	-	1,265
Insurance recoveries/loss on asset disposition	<u>30,000</u>	<u>(57,558)</u>	<u>(27,558)</u>
Total general revenues	<u>31,265</u>	<u>(57,558)</u>	<u>(26,293)</u>
<b>NET CHANGE IN FUND BALANCE/NET ASSETS</b>	61,948	(75,689)	(13,741)
<b>FUND BALANCE/NET ASSETS - BEGINNING</b>	<u>98,833</u>	<u>463,817</u>	<u>562,650</u>
<b>FUND BALANCE/NET ASSETS - ENDING</b>	<u>\$ 160,781</u>	<u>\$ 388,128</u>	<u>\$ 548,909</u>
<b>Net change in fund balance</b>			\$ 61,948
Amounts reported in the statement of activities are different because:			
Capital assets:			
Assets acquired			49,834
Basis of assets disposal			(57,558)
Provision for depreciation			<u>(67,965)</u>
<b>Change in net assets</b>			<u>\$ (13,741)</u>

See notes to financial statements

**South Kalamazoo County Fire Authority**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the South Kalamazoo County Fire Authority (the Authority) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

The Authority was established June 26, 1999, to jointly provide fire protection services within the member municipalities in Southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. Costs of operations and capital expenditures are supported by contributions from the participating municipalities.

*b) Basis of accounting:*

The statement of net assets and the statement of activities are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

*c) Assets and liabilities:*

*i) Bank deposits and investments* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*ii) Capital assets* - Capital assets, which include land, buildings, equipment, and vehicles, are defined by the Authority as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**South Kalamazoo County Fire Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Assets and liabilities:*

*ii) Capital assets (continued)* - Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	10 - 20 years
Vehicles	5 - 15 years

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by function and line-item. The legal level of budgetary control adopted by the governing body is the line-item level. All annual appropriations lapse at the end of the fiscal year. There were no significant budget variances.

**NOTE 3 - CASH:**

State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Authority's deposits are in accordance with statutory authority. At March 31, 2008, the Authority had deposits with a carrying amount of \$150,072.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2008, \$46,512 of the Authority's bank balances of \$158,258 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Authority believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - OPERATING LEASES:**

The Authority leases three stations from the Village of Schoolcraft, Wakeshma Township, and the Village of Vicksburg under agreements that have been classified as operating leases. The terms of the lease agreements between the Authority and the participating local units of government are in effect through August 31, 2008. Lease expense for the period ending March 31, 2008, was \$15,000.

**South Kalamazoo County Fire Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity of the Authority for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Equipment	253,351	49,834	(9,900)	293,285
Vehicles	910,400	-	(212,000)	698,400
Subtotal	<u>1,163,751</u>	<u>49,834</u>	<u>(221,900)</u>	<u>991,685</u>
Less accumulated depreciation for:				
Equipment	(154,014)	(27,483)	9,900	(171,597)
Vehicles	(550,920)	(40,482)	154,442	(436,960)
Subtotal	<u>(704,934)</u>	<u>(67,965)</u>	<u>164,342</u>	<u>(608,557)</u>
Total capital assets being depreciated, net	<u>458,817</u>	<u>(18,131)</u>	<u>(57,558)</u>	<u>383,128</u>
Governmental activities capital assets, net	<u>\$ 463,817</u>	<u>\$ (18,131)</u>	<u>\$ (57,558)</u>	<u>\$ 388,128</u>

**NOTE 6 - PAYABLES:**

Payables as of year end for the Authority are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Total</u>
General	<u>\$ 18,504</u>	<u>\$ 8,895</u>	<u>\$ 27,399</u>

**NOTE 7 - RISK MANAGEMENT:**

The Authority is exposed to various risks of loss to general liability, property and casualty, and workers' compensation, with such risks being managed through the purchase of commercial insurance.

## REQUIRED SUPPLEMENTARY INFORMATION

**South Kalamazoo County Fire Authority**  
**BUDGETARY COMPARISON SCHEDULE - Operating Fund**  
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Contributions from local units	\$ 359,250	\$ 359,250	\$ 353,082	\$ (6,168)
Interest	500	500	1,265	765
Other	-	-	35,290	35,290
	<u>359,750</u>	<u>359,750</u>	<u>389,637</u>	<u>29,887</u>
Total revenues				
<b>EXPENDITURES</b>				
Public safety:				
Wages and payroll taxes	119,000	107,150	103,976	3,174
Office supplies	1,550	1,350	839	511
Operating supplies	48,250	42,125	38,127	3,998
Professional services	8,300	8,300	5,531	2,769
Telephone and communications	19,700	19,700	16,980	2,720
Repairs and maintenance	27,500	49,850	45,030	4,820
Insurance	47,000	39,875	38,336	1,539
Utilities	16,600	19,150	20,157	(1,007)
Leases	15,000	15,000	15,000	-
Education and training	9,500	9,500	6,208	3,292
Miscellaneous	350	350	95	255
	<u>312,750</u>	<u>312,350</u>	<u>290,279</u>	<u>22,071</u>
Total public safety				
Capital outlay	<u>46,500</u>	<u>46,900</u>	<u>37,410</u>	<u>9,490</u>
Total expenditures	<u>359,250</u>	<u>359,250</u>	<u>327,689</u>	<u>31,561</u>
<b>NET CHANGE IN FUND BALANCES</b>	500	500	61,948	61,448
<b>FUND BALANCES - BEGINNING</b>	<u>98,833</u>	<u>98,833</u>	<u>98,833</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 99,333</u>	<u>\$ 99,333</u>	<u>\$ 160,781</u>	<u>\$ 61,448</u>

July 8, 2008

To the Board of Trustees  
South Kalamazoo County Fire Authority

We have audited the financial statements of the governmental activities and the major fund of the South Kalamazoo County Fire Authority for the year ended March 31, 2008, and have issued our report thereon dated July 8, 2008. Professional standards require that we provide you with the following information related to our audit.

*Our Responsibility under U.S. Generally Accepted Auditing Standards*

As stated in our engagement letter dated March 17, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by South Kalamazoo County Fire Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by South Kalamazoo County Fire Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Authority's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



The disclosures in the financial statements are neutral, consistent, and clear.

*Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended March 31, 2008.

*Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the South Kalamazoo County Fire Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Communication Regarding Internal Control*

In planning and performing our audit of the financial statements of the South Kalamazoo County Fire Authority as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the South Kalamazoo County Fire Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Authority has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Authority has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the South Kalamazoo County Fire Authority and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*